

Proposed Changes to the Committee Draft Guidebook for the Existing Renewable Facilities Program

Changes to be considered for adoption
at the February 19, 2003 Business Meeting

(Selected pages are presented in underline/strikeout with changes reflecting
modifications to the February 2003 Committee Draft Guidebook)

February 18, 2003

- 3) the funds-adjusted price for the tier. The funds-adjusted price is calculated as follows:
 - a) divide the total funds available in a month by the total payments due that month (as calculated using the minimum of formulas (1) and (2) above) to obtain an adjustment fund multiplier (AFM)), and
 - b) multiply the minimum of formula (1) and (2) by the AFM to determine the funds-adjusted price for each facility.

The pre-determined target prices and incentive caps for each tier are shown in Table 1 below.² At this time the Energy Commission does not see a need to adjust the target prices for inflation. However, the Energy Commission plans to revisit the issue of inflation adjustments in the future and, if appropriate, make necessary changes to target prices to account for changing market conditions.

Table 1
Target Prices and Payment Caps
for Existing Renewable Facilities
(cents per kWh)

| | | 2002 | 2003 | 2004 | 2005 | 2006 |
|---------------------------------|--------------|------|------|------|------|------|
| Tier 1 (Biomass, Solar Thermal) | Target Price | 5.50 | 5.37 | 5.37 | 5.37 | 5.37 |
| | Cap | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Tier 2 (Wind) | Target Price | 3.8 | 3.8 | 3.8 | 3.8 | 3.8 |
| | Cap | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |

Determination of Market Price

For facilities eligible to receive funding from the ERFP, the value of the market-clearing price will be determined on a monthly basis according to one of the following options, depending on the type of power purchase contract a facility has for its energy payments. Additionally, the determination of the market price may vary by year and tier.

Determination of Market Price for 2002 (Average Monthly Energy Prices)

- 1) For facilities with an IOU power purchase contract, the value of the market price shall be the monthly time-period weighted average short-run avoided energy cost (SRAC) **specific to each of the three major utility service areas** (Pacific Gas &

² The target prices and caps shown in Table 1 differ from those in the Commission's Investment Plan, *Investing in Renewable Electricity Generation in California (P500-00-022, June 2001)*, due to changes in market conditions since the Investment Plan was published.

Electric Company (PG&E), Southern California Edison Company (SCE), or San Diego Gas & Electric Company (SDG&E)). This applies to facilities receiving variable monthly payments based on the SRAC for a majority of their generation.

- 2) For facilities with contracts receiving fixed monthly average energy prices for a majority of their generation, the value of the market price for all generation from the facilities will be the fixed monthly average energy price, as specified in the contract, paid for a majority of their generation³. (e.g. with Department of Water Resources (DWR), the California Power Authority (CPA), an IOU, etc.)
- 3) For facilities that do not fall under the provisions of options (1) or (2) above, the market price will be determined by the Energy Commission based on the actual energy price received by the facility. In many cases, this value will be the SRAC price, as listed in option (1) above, which was used as the representative market price for all facilities not under a utility contract from 1998 through 2001.

Determination of Market Price for 2003 to 2006

For facilities in Tier 2, the market price shall be determined using average monthly energy prices as specified above for 2002.

When registering for the first time or reregistering for the ERFP, applicants for facilities in Tier 1 **ONLY** will have the one-time option of having their market price based on average monthly energy prices as specified above for 2002 or on time-of-use (TOU) energy prices. Whichever method is chosen shall remain in effect until the end of 2006. For those choosing to have incentive payments based on TOU prices, the TOU periods that will be considered are those specified in the IOU contracts (e.g. on-peak, partial-peak, mid-peak, off-peak, and super off-peak). The Energy Commission will **NOT** make payments based on hourly fluctuations in market prices. In order to receive incentive payments based on TOU energy prices, third party statements submitted must clearly summarize generation by TOU periods in addition to meeting all the requirements specified later in this guidebook (Section V). For facilities that qualify to have their ERFP incentive payments based on TOU energy prices, the value of the market price for all generation from the facilities will be based on the TOU energy prices paid for a majority of their generation (e.g. for a facility that receives 75% of payments based on 5.37 cents/kWh and 25% based on SRAC, the market price for all generation will be based on the 5.37 cents/kWh TOU prices). Furthermore, the Energy Commission will use the TOU generation values specified in the third party verification, without adjustment.

Applicants who choose to have payments based on TOU prices, but do not have third party statements that meet the Energy Commission's requirements, will have payments based on average monthly energy prices until their third party verification is in the

³ For facilities that signed 5.37 cents/kWh amendments and receive 75% of payments based on 5.37 cents/kWh and 25% based on SRAC, the market price will be 5.37 cents/kWh. For facilities in the PG&E territory that signed 5.37 cents/kWh amendments, the market price will be approximately 6.0 cents/kWh during the winter period and 4.7 cents/kWh during the summer period. (Exact values will be used for calculating payments)

appropriate form. Additionally, they will need to provide the Energy Commission with documentation on what they are doing to get their third party verification in compliance with the Energy Commission's TOU requirements. Failure to do so in a timely manner will result in the facility being paid based on average monthly energy prices until 2006.

IV - Registration

To register a facility as a Renewable Supplier, applicants must satisfy the requirements below and submit a completed form CEC-1038E-1, Registration Form for Renewable Suppliers, to the Energy Commission. Applicants that meet the funding eligibility requirements below and wish to receive funds from the ERFP must submit a completed form CEC-1038E-2. This requirement applies to all applicants, including applicants whose facilities received funding under SB 90. **NO** payments shall be made to any applicant that fails to submit the necessary forms and information.

Renewable Supplier Registration

To qualify for registration as a Renewable Supplier, an applicant must ensure that the facility satisfies the following requirements:

1. The facility must use one or more of the following energy sources to generate electricity: solar, wind, geothermal, solid-fuel biomass, waste tire, municipal solid waste, digester gas, or hydropower with a generating capacity of 30 megawatts or less. The 30 megawatt limitation applies to the sum capacity of all hydroelectric turbine generators employed at the facility.
2. The facility may use no more than 25 percent fossil fuel. This percentage is determined on an annual basis in a manner consistent with section 292.204(b) of Title 18 of the Code of Federal Regulations. This section provides that the content of all fossil fuels used, in the aggregate, may not exceed 25 percent of the total energy input of the facility during a given calendar year.

Registration as a Renewable Supplier does **NOT** imply Energy Commission endorsement or verification of renewable status. Registration as a Renewable Supplier merely indicates that the applicant has certified under penalty of perjury that its facility meets the registration requirements of a Renewable Supplier and has obtained a CEC ID number from the Energy Commission.

Funding Eligibility Registration

Facilities registered as Renewable Suppliers are eligible for funding if they satisfy the requirements below and apply to the Energy Commission by submitting a completed Form CEC-1038E-2, Funding Eligibility Form for Renewable Suppliers.

1. The facility must be located in California, or located near California's border with its first point of interconnection to the Western Electricity Coordinating Council's transmission grid located in California.
2. The facility was operational prior to September 26, 1996 **AND** is certified as a qualifying small power production facility pursuant to section 292.207 of Title 18 of the Code of Federal Regulations. This includes repowered facilities.
3. The facility is **NOT** owned by an electrical corporation as defined in Public Utilities Code section 218 or a local publicly owned electric utility as defined in Public Utilities Code section 9604(d).
4. The facility is **NOT** selling its generation under a fixed price contract with ~~an~~ energy prices^s above the applicable target price. This applies to any facility with a power purchase contract that provides energy payments for a majority of a facility's generation that are based on a price per unit measure of electricity that (1) was known or ascertainable at the time the contract was entered into or amended and (2) ~~has a the~~ fixed price portion ~~has an annual average that is~~ greater than the applicable ERF target price.

In addition, a facility's energy must be generated **AFTER January 1, 2002** and meet the following requirements.

1. The energy must be sold to customers **WITHIN** the state of California.
2. The energy must **NOT** receive monthly ~~average~~ energy payments at a price equal to or greater than the applicable target price.
3. The energy must **NOT** be used on site (self-generation).
4. The energy must **NOT** be sold to customers of local publicly owned electric utilities.
5. The energy must **NOT** receive incentive payments from other Renewable Energy Program elements under SB 1038 or the Energy Commission's New Renewable Resources Account under SB 90.
6. The energy must **NOT** be excluded from any applicable competitive transition charge payments (such as over-the-fence transactions⁴) or sold in a manner avoiding these payments.
7. The energy must **NOT** receive funding under the Agricultural Biomass-to-Energy Incentive Grant Program pursuant to Food and Agriculture Code sections 1101, et sequentia.

Energy from incremental generation additions or enhancements to a facility, and energy sold through a power exchange, is also eligible for funding from the ERF.

⁴ See Section 372 of the Public Utilities Code.

Sacramento, CA 95814-5512

Telefax: (916) 653-1435

The Energy Commission must receive invoices at the above address no later than 11:59 p.m. if by telefax or 5 p.m. PST if by mail, on the due date specified in the Invoicing Schedule. If an invoice is incomplete, illegible, or received after the due date specified in the Invoicing Schedule, the Renewable Supplier will be notified by fax why the invoice is rejected. This notice will be faxed to the contact person identified on the eligibility form or monthly invoice form. The Renewable Supplier is responsible for ensuring that the contact information is up to date and current.

Renewable Suppliers who fail to invoice the Energy Commission properly for a given billing month, as specified herein, shall not receive payment for that billing month.

After receiving invoices, the Energy Commission will calculate payments based on the incentive rate formulas and market price options described in Section III of this guidebook.

The ERFP will not provide incentive payments to a facility ~~whose with average monthly~~ energy prices ~~is~~ above the applicable target price. The authorized representative of a Renewable Supplier is responsible for providing the Energy Commission with sufficient proof to document the prices received for generation funded through the ERFP. Failure to provide adequate documentation shall result in **NO** incentive payments being made until such time as appropriate documentation is provided.

The Energy Commission will not require disclosure of the actual energy prices received for any month in which a facility does not seek ERFP funding. For facilities receiving payments under SRAC, a utility statement (which should be submitted as third-party verification) shall be sufficient to meet this requirement.

Agricultural Biomass-to-Energy Incentive Grant Program Participants

For facilities that received Agricultural Biomass-to-Energy Incentive Grant Program funding (Agricultural Grant Program) for January through June 2002 purchases, the following method will be used to determine incentive payments from the ERFP:

1. All facilities that participated in the Agricultural Grant Program and are requesting ERFP funds for January through June 2002 shall submit proof of the total incentive funds received for eligible purchases from the Agricultural Grant Program during the 2001/2002 fiscal year.
2. When submitting monthly invoices to the ERFP for the months of January through June 2002, participants in the Agricultural Grant Program shall submit proof of monthly payments from the Agricultural Grant Program for the months being invoiced. Absent the appropriate proof of monthly payments, the Energy

Commission shall assume that, for each month being invoiced, the facility received 1/12th of the total funds received for the 2001/2002 fiscal year from the Agricultural Grant Program.

3. The Energy Commission shall calculate incentive payments from the ERFP as described in this guidebook and then subtract the value obtained in (2) above from this value. If no payments are made from the ERFP for a given month, the facility simply keeps the value determined in (2) above.

Payments

The Energy Commission intends to make incentive payments within 60 days of the end of the billing month. Table 2, Invoicing Schedule, lists invoice due dates and anticipated payment mailing dates. The payment for your January 2003 generation, along with the retroactive payments for January through December 2002, should be mailed to you on or about March 31, 2003. However, given the large number of invoices that will need to be reviewed, payment for 2002 and/or January 2003 generation may be delayed. Payment for your February 2003 generation should be mailed on or about April 30, 2003, and so on. The Energy Commission will send a statement that explains how the payment was calculated for the billing month. The statement will also give the program-to-date status both for your facility and for the entire tier of which you are a part. A sample statement for January 2003, using the numbers in the sample below, is included at the end of this guidebook. *[Sample statement will be included with the final adopted guidebook only.]*

Periodically, the Energy Commission may make adjustments to your monthly payment (for instance, it may be necessary to correct a meter reading or reporting error from prior months). These adjustments will be reflected on your monthly statement.

Sample Calculation of Incentive Payment

Below is an example of how the incentive payment would be calculated for a Tier 1 facility in PG&E's service territory for January 2003 based on an average monthly energy price. In the example, any numbers used other than target prices and caps are for illustration only and should not be considered accurate representations of market price, expected available funds, individual renewable facility generation, or total renewable generation.

| | |
|---|------------------|
| Tier 1 funds available for January 2003 | \$1,687,500 |
| Target price for Tier 1 | 5.37 cents/kWh |
| Cap for Tier 1 | 1.00 cents/kWh |
| Market Price (PG&E's SRAC) | 2.90 cents/kWh |
| Total qualifying generation in Tier 1 | 300,000,000 kWhs |
| Facility generation for January 2003 | 15,000,000 kWhs |
| Tier 1 funds to be paid using minimum of (Target - Market Price) and Cap | \$1,875,000 |